

Message Text

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42

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INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PM-07 H-03 L-03

NSC-10 PA-04 PRS-01 SS-20 USIA-15 ACDA-19 IO-14 AGR-20

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SUBJ: MEXICANIZATION OF TOBACCO MANUFACTURING COMPANY

DEPT PASS AGRICULTURE/FAS

REF: MX-3031, JUNE 15, 1973; MX-3038, SEPT. 13, 1973; A-687, NOV.
10, 1972

1. DURING PAST WEEK PRESS HAS HEADLINED "MEXICANIZATION" OF TABACALERA MEXICANA, THE THIRD-LARGEST CIGARETTE MANUFACTURING COMPANY IN MEXICO. EMPRESAS LA MODERNA AND EL AGUILA, THE TWO LARGEST CIGARETTE PRODUCERS WHICH TOGETHER ACCOUNT FOR APPROXIMATELY TWO-THIRDS OF MEXICO'S CIGARETTE PRODUCTION, WERE MEXICANIZED SEVERAL MONTHS AGO AS REPORTED IN REFTELS.

2. ACCORDING TO PRESS AND INFORMED TRADE SOURCES LIGGETT AND MYERS OWNED 723,000 SHARES OF TABACALERA MEXICANA WHICH ACCOUNTED FOR 49.9 PERCENT OF THE TOTAL SHARES OF COMPANY. REMAINING SHARES BELIEVED BE MOSTLY MEXICAN-OWNED ALTHOUGH APPARENTLY THERE IS SOME OTHER FOREIGN OWNERSHIP MAINLY, SPANISH. THE 723,000 OWNED BY LIGGETT AND MYERS HAD BEEN PURCHASED BY NACIONAL FINANCIERA
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(NAFINSA), A GOVERNMENT-OWNED BANK AND LIGGETT AND MYERS HAS IN

EFFECT COMPLETELY WITHDRAWN FROM MEXICO.

3. NAFINSA PURCHASED LIGGETT AND MYERS SHARES OF TABACALERA AT 85 PERCENT OF THE ORIGINAL ISSUE VALUE WHICH ACCORDING TO INFORMED TRADE SOURCES IS ABOUT EQUAL THE CURRENT VALUE ON THE MEXICO CITY'S STOCK EXCHANGE. REPORTEDLY LIGGETT AND MYERS HAVE TRIED TO SELL SHARES ON OPEN MARKET BUT DUE FACT COMPANY HAS DONE POORLY FOR SEVERAL YEARS WERE UNABLE TO ATTRACT MEXICAN INVESTORS, WHICH ACCOUNTS FOR GOM STEPPING IN AND PURCHASING SHARES. GOM HAS STATED INTENT TO PLACE SHARES ON MEXICO CITY EXCHANGE FOR SALE TO PUBLIC BUT TRADE FEELS GOM WILL HAVE SAME PROBLEM AS L&M IN DISPOSING OF THESE SHARES UNTIL COMPANY SHOWS PROFIT. IT IS ALSO QUESTIONED BY SOME WHETHER GOM REALLY INTENDS SELL THE SHARES.

4. MEXICANIZATION OF CIGARETTE MANUFACTURING COMPANIES HAS COME AS A RESULT OF DIRECT ECONOMIC PRESSURE BY GOM. FOLLOWING NATIONALIZATION OF TOBACCO LEAF PRODUCTION AND MARKETING COMPANIES LAST NOVEMBER (A-687, NOV. 10, 1972) GOM INCREASED PRICES OF LEAF TO CIGARETTE MANUFACTURING COMPANIES BY APPROXIMATELY ONE-THIRD. AT THE SAME TIME, THEY DENIED REQUEST BY CIGARETTE MANUFACTURING COMPANIES FOR INCREASE IN RETAIL PRICE OF CIGARETTES. WHEN CIGARETTE MANUFACTURING COMPANIES POINTED OUT TO GOM THAT IT WOULD BE IMPOSSIBLE FOR THEM TO OPERATE PROFITABLY UNDER THESE CONDITIONS, GOM RESPONSE WAS THAT IF COMPANIES WERE MEXICANIZED THEY MIGHT BE ELIGIBLE FOR A GOVERNMENT SUBSIDY TO OFFSET INCREASED PRICE OF LEAF. A DEADLINE OF SEPTEMBER 30, 1973 WAS SET FOR MEXICANIZATION AND ELIGIBILITY FOR THE SUBSIDY. LA MODERNA AND EL AGUILA WERE ABLE TO MEET CRITERIA SET BY GOM FOR MEXICANIZATION PRIOR TO SEPTEMBER 30 AND ACCORDING TRADE SOURCES HAVE RECEIVED SUBSIDIES IN FORM REDUCTION STAMP TAX COSTS. BOTH OF THESE COMPANIES WERE OPERATING AT A PROFIT WHICH MOST LIKELY MADE MEXICANIZATION EASIER.

5. THERE ARE STILL TWO U.S. COMPANIES, REYNOLDS AND PHILLIP MORRIS, WHICH HAVE MAJORITY INTERESTS IN TWO SMALL CIGARETTE MANUFACTURING COMPANIES WHICH ACCOUNT FOR ONLY 9 PERCENT OF MEXICO'S CURRENT CIGARETTE PRODUCTION. WE HAVE NOT BEEN ABLE TO OBTAIN INFORMATION ON EXTENT OF MEXICANIZATION OF THESE TWO COMPANIES BUT INFORMED TRADE SOURCES BELIEVE THAT THEY HAVE NOT YET BEEN SUCCESSFUL IN THIS EFFORT. WE ASSUME THEY WILL BE

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NEXT PRESSURED BY GOM TO MEXICANIZE AND WILL BE FORCED TO IN ORDER QUALIFY FOR SUBSIDY.
MCBRIDE

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